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Chicago Municipal Ownership League

Public ownership

Chicago

[1919?]

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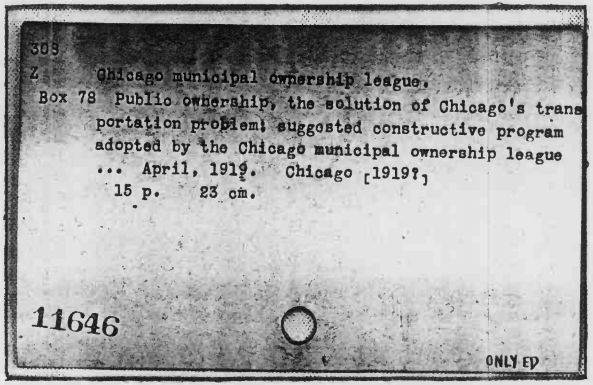

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Public Ownership

THE SOLUTION OF CHICAGO'S TRANSPORTATION PROBLEM

SUGGESTED COSTRUCTIVE PROGRAM

Adopted by the Chicago Municipal Ownership League (Affiliated with the Public Ownership League of America) and submitted to the City Council and People of Chicago.

Chicago, April, 1919

Chicago Municipal Ownership League
1439 Unity Bldg., 127 N. Dearborn St.
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20 April 1920 Jnd

PUBLIC OWNERSHIP OF THE STREET CAR LINES

The Solution of Chicago's Transportation Problem

A Constructive Program Adopted by the Chicago Municipal Ownership League and Submitted to the City Council and the People of Chicago.

It has often been charged that the advocates of municipal ownership of Chicago street car transportation, have never offered a constructive program to bring it about. This, of course, has never been true. For years the advocates of municipal ownership have been urging a very definite, constructive program. The only trouble has been that the usual publicity agencies have not given the program proper notice or have suppressed it entirely.

It has also been held by the opponents of public ownership that in any case the program could not be put through without an amendment to the constitution of the state which would require a number of years of doubtful struggle, and that therefore municipal ownership was so remote that it was practically out of the question for the present. This too, is untrue.

In the following pages is set forth the constructive program by which the city of Chicago may proceed without further delay to the solution of its transportation problem thru municipal ownership.

THE TRANSPORTATION PROBLEM

The people of Chicago have repeatedly expressed themselves in favor of, and have voted for, municipal ownership of the local transportation system. The defeat of the proposed traction ordinance, a few months since, was only another protest against and answer to an effort to further exploit the public in the interest of private ownership promoters. Unless we are to continue the old program of periodical "settlement" ordinances, promises, inadequate and bad service, financial exploitations and jobbing, and the corrupting influence of private ownership in the political and civic affairs of the City we must at once undertake, by such practical means as we may, to secure public ownership.

Many people have been led to believe, by the private interest propogandists, that municipal ownership is all but impossible to secure. Most of the obstacles in the way have been deliberately placed there by those who hope to profit thru private ownership and control. We must remove whatever obstacles there are in the way and prevent the creation of others.

The following is accordingly suggested as a tentative outline of procedure:

First: There should be a municipal ownership commission, created by the City Council, to study the problem, and work out a plan for establishing public ownership of the local transportation service in Chicago. The commission should be composed of representative disinterested citizens devoted to the principle of public ownership, and provided with adequate facilities and funds to carry on the work in an efficient and thoro manner.

To establish Municipal Ownership in Chicago will unquestionably require a hard fight. To fight efficiently and successfully, the necessary equipment in funds and information should be available.

Second: There should be no more settlement, time-extension, or renewal franchises granted for either surface or elevated lines in Chicago.

Third: Steps should be taken at once to secure the necessary financial ability to undertake public ownership of both the elevated and surface lines of transportation at the earliest possible date it can be accomplished on equitable terms.

Fourth: Means should be adopted at once to secure the best and most efficient use of transportation facilities now available in order to render more adequate service on both the surface and elevated lines. The companies should be compelled to fulfil their obligations to the public by giving proper service until the City takes over the property for public ownership and operation.

The subject will be considered under the two main divisions of Municipal Ownership and Service Betterment. These again are divided into, A—Surface Lines, and B—Elevated Lines.

MUNICIPAL OWNERSHIP

The more important elements of this problem are:

First: To establish the City's financial ability.

Second: To determine the valuation of the transportation properties.

Third: To determine the method of taking over or acquiring the companies' property and rights.

THE SURFACE LINES

First: **To Establish the City's Financial Ability.** The limitation on the City's right to properly and fully finance itself in the public interest is the worst handicap in the way of extending public ownership of utility service undertakings in Chicago. An early and effective remedy of this defect is of the first importance.

The following expedients have been suggested:

(a) To amend Section 18 of the Revenue Act so that where municipalities wish to incur indebtedness for the construction or purchase of public utility service undertakings, they may incur an additional indebtedness, and that the ***limit*** of such indebtedness should be based on the ***full property value*** as fixed by the assessing authorities and not the one-third of such value, which would still continue as the basis of assessment for taxation purposes.

(b) To have the Statute relating to assessment of property revised so that the limitation of indebtedness will be based on the full, instead of one-third the property value.

(c) To have a referendum to put in force the Park Consolidation Act to increase the City's money borrowing power.

(d) To use the accumulated traction fund so far as it will go.

The league considers (a) the best and most practical of any of the partial relief expedients that have been so far suggested and accordingly recommend that it be employed in the present emergency as an aid to clear up the traction situation, by public ownership.

(e) The constitutional right should be established, with the least possible delay, for the City to issue bonds against a revenue

producing utility property, without their standing against the City's ordinary debt-incurring power, but which will nevertheless be backed by the general credit of the municipality. To illustrate: the City can now borrow about $55,000,000 within its debt-incurring limit. If it bought or built utility service property worth $100,000,000, it should have the unquestioned right to issue $100,000,000 of bonds to stand as a lien against the property. In order to secure the most favorable terms for interest, in the City's favor, the bonds should also be covered by the general credit of the municipality. This provision is perfectly just, as bonds that are secured by a lien on actual revenue producing property owned by the City equal in value to their amount, consitute little if any actual liability against the City's general credit and should not be counted against it, to limit the ordinary borrowing power. Such bonds should, however, be serial or protected for retirement by adequate sinking funds.

Second: **To Determine the Valuation of the Transportation Properties.**

This is a factor of very great importance. The people, in approving the 1907 settlement ordinance of the surface lines, naturally supposed that the provisions were such that the integrity of the property would be maintained through the depreciation reserves and other provisions, so that the purchase price to the City would represent the real property value at any time the City took it over, instead of two or three times as much as the worn and depreciated property is worth. The present capital account of the surface lines, the amount the City is called on to pay for the property, is way in excess over new cost values, and more than double the present depreciated value. The City is called upon to pay this high excess value, almost in full, not for new, but for badly worn and second hand property. The *true value* of the property will have to be determined by an honest appraisal with such aid as may be had from the accounts kept by the Board of Supervising Engineers.

Third: **To Determine the Methods of Taking Over or Acquiring the Companies' Properties and Rights.**

(a) Upon the terms of an open, fair and liberal cash offer for the property, based on its true original cost and its state of depreciation at the time of purchase.

(b) The 1907 ordinance has by its provisions apparently left the door open for the City to undertake municipal ownership at any time. The excess capital account and lack of adequate depreciation reserves places a financial burden for acquiring an old worn property, such as to leave the advisability and wisdom of purchase thru this means open to grave question. The capital account is now nearly $160,000,000 and the actual depreciated physical value probably less than $70,000,000. The depreciation reserve is probably less than $8,000,000. That would leave the excess the City is called upon to pay over $80,000,000.

The foregoing figures are based on the conservative facts and merits of the case as near as we were able to determine them. There is however, unusual supporting evidence in the testimony of Col. E. R. Bliss, attorney for the Chicago Surface Lines, before the Cook County Board of Review on September 11, 1917, in which he said:

> "So there is at least $85,000,000 to $90,000,000 that is not represented by any property at all; and it is in this capital account."
>
> Mr. Litzinger: "How much did you say?"
>
> Colonel Bliss: "$85,000,000 to $90,000,000—it can never be contended for a moment that this capital account represents the value of anything."

(c) The City apparently has the right to condemn the surface lines' property and take it over, not only at the end of the franchise grant in 1927, but to start proceedings at any time. This seems the best available method of acquiring the properties at anything like a reasonable and just amount.

(d) There may be the alternative of dealing directly with the lien bondholders. There are now over $135,000,000 lien bonds outstanding against property which, as above stated, is probably now worth less than $70,000,000. The average market value of the bonds for 1917 was a little over $114,000,000. These bonds all run to the end of the franchise period and are gradually declining below par from year to year. The actual physical value of the property back of these bonds at the end of the franchise period in 1927 may amount to less than $50,000,000. With this amount of property to safeguard not less than $135,000,000 of lien bonds it is hard to discover any valid equity for the balance of the "capital account" represented by capital stock. As a matter of fact, if the depreciation reserve were put on a proper basis to maintain the honest value and integrity of the property, then the *returns* on these fictitious stock claims would at once disappear, and in truth they never should have been allowed at any time.

If the City does not purchase the property, or grant an extension franchise before the expiration of the present, or grant a new franchise at the expiration of the old, the lien bondholders may very well be concerned at this time with the status of their holdings.

Let us again state the extreme of the situation to be faced.

If the City purchased today on the terms of the 1907 ordinance, it would have to pay about twice the amount that the property is physically worth.

On the other hand, the actual physical property back of the outstanding lien bonds probably amounts to less than 60% of their face value. At the end of the franchise in 1927 it will probably be much below 50%.

In view of the above facts, we suggest an arrangement by which the lien security holders would accept considerably less than the face or par value of their present claims but would receive much more than they can expect if their claims run to the end of the franchise in 1927.

The financial condition of the Chicago Railways, so far as affected by lien bonds, is in much worse shape than the "South Side Lines." The average of all outstanding securities for all lines is about the same as the load C. T. Yerkes was able to pile on the Union Traction Lines in his day.

The following is a tabulation of the outstanding ***Lien*** Securities of the different surface lines (stocks and collateral bonds appended under foot note):

BOND ISSUES OF THE CHICAGO SURFACE LINES, 1917.
1053.2 MILES SINGLE TRACKS.

Property Covered	Value Par	Q	Market	Int. Rate	Remarks
C. C. Ry.....	$ 33,900,000	90.6	$ 30,713,400	5.0	1st Mortgage
C. & So. Chi. Ry..	5,355,000	93.0	4,880,150	5.0	1st Mortgage
C. Rys.....	55,655,000	89.5	49,811,225	5.0	1st Mortgage
C. Rys.....	16,397,800	88.5	14,622,053	5.0	Series A
C. Rys.....	16,936,475	60.4	10,229,630	5.0	Series B
C. Rys.....	903,336	97.0	876,236	5.0	Series C
C. Rys.....	3,969,620	60.0	2,381,772	5.0	Purch. Mon.
C. Rys.....	2,379,234	35.0	832,732		Adjust. Inc'e
Total	$135,496,465	84.4	$114,347,198		
Per Mile S. T.....	128,652		108,572		

NOTES:

"Q" (Column 3) is the average market quotation for the year 1917.

S. T. stands for Single Track.

Liberal estimate of new value, $100,000 per Mile of S. T.

Depreciated value, 1918, about $65,000 per Mile of S. T.

The outstanding capital stock claims amount to over.....$ 70,000,000

Chicago City and Connecting Ry. Collateral Bonds about 21,000,000

Lien Bonds outstanding, over..... 135,000,000

Round number total outstanding claims.....$226,000,000

Since the above table was prepared the figures for 1918 are available. These show the total average market value for the last year was $106,061,716 for the $135,496,465 par value of outstanding bonds. Average market value 78.3% of par value. This is 6.1% less than for the previous year.

It should be remembered that if the City took the property over today, it is now about half worn out and second hand.

There is apparently no question about the City having been exploited on the one hand and the bondholders on the other. Is it too much to say that honest financing would have avoided such a state of affairs? Can a fairly acceptable readjustment be worked out in the interest of both the City and the bondholders and the City take over the property? In facing the existing condition, which is the best way out?

(e) If nothing can be arranged on the above basis then the question is to be decided as to whether it is best to buy now at the excessive over-valuation, undertake to acquire by condemnation, or to let the matter go until the franchise expires in 1927 and then take the property over at its true depreciated value for public ownership, thru condemnation proceedings, if necessary.

In any event, as before stated, the companies should be compelled to give adequate service, and not allowed to hide behind a conflict of authority between the State Utilities Commission and the City. When they are obliged to give good service, they are not alone fulfilling their obligation to the community, but they cannot again use their bad service as propaganda in a campaign to force or to exact new franchise terms from the City for further exploitation.

Regardless of what decision may be eventually reached in reference to the purchase of the property now or in the future, the City Council and the Board of Supervising Engineers should at once change the basis of depreciation reserve requirements from 8% to at least 20% of the gross earnings so as to re-establish the integrity of the property value as nearly as may be. The present requirement of 8% of the gross earnings is totally inadequate. The true basis of depreciation reserve *should not be less than 5% per annum on the cost value of the property.* The depreciation reserve now falls short of meeting the requirements of honest conservative financing by about $5,000,000 a year. The total deficiency is now not far from $70,000,000.

(As shown in the Unification Ordinance of 1913, Sec. 3, [see page 242 Report of Board of Supervising Engineers Report for 1914], there is an apparent attempt to modify and limit to not over 10% of gross earnings, what was the right of the City, as provided in the 1907 Ordinance, to require an adequate depreciation reserve without any special limitation. Whether or not this will stand legally under the circumstances, it at least shows dishonesty and bad faith with the citizens of Chicago. The 1907 Ordinance was approved by the people upon a referendum vote. The attempt was then made to modify a vitally important provision of this ordinance by the provisions of another ordinance which was not submitted to referendum.)

ELEVATED LINES

First: **Financial Ability.** This has already been dealt with under "Surface Lines."

Second: **The Value of the Properties.** From the City's standpoint, this part of the problem is simpler and more favorable to the City than of the Surface Lines. There is no inflated "Capital Account" claim contract to be dealt with. The purchase price value should be the net depreciated value of the property at the time it is taken over. This can be determined by a fair and honest appraisal.

The outstanding lien bonds against the Elevated Properties in 1917 was about $49,173,600, while the average market value for the same year was about $35,365,818. The fair net depreciated value of the property for purchase is probably but little, if any, above the par value of the lien bonds, or about $50,000,000.

Third: **Methods of Taking Over or Acquiring.** The Elevated Road Companies probably have little, if any, borrowing power left. If they can borrow any more money for improvements, it will probably be at very disadvantageous terms. Such being the case, what may the City do to help out the situation, and at the same time further the principle and program of public ownership? The following may be offered as suggestions along that line:

(a) After the City's proper power to finance itself for public service utility undertakings is established, make the Elevated roads or the bondholders a fair offer for their property. If they do not see fit to sell on fair terms, go ahead and take the property over by condemnation proceedings.

(b) Make a comprehensive study of the possibilities of extending steam railroad service under electrification and thru routing

to give local rapid transit. The availability of steam line rights-of-ways for extension of elevated lines and service should be given the fullest consideration.

SERVICE BETTERMENTS

Pending the attainment of public ownership by the City, the companies should be required to render adequate service.

THE SURFACE LINES

It is believed that the following suggestions embody some of the means thru which much better, if not fully adequate, service may be secured without any added expense for tracks.

First: **Thru routing.** (a) Balanced thru north and south service should be established at once. (b) West Side thru or "U" branch, or some as equally effective thru service should be established with the least possible delay. There is apparently no necessity for the amount of "looping" that is now carried on in the business district.

Second: **Turn-back service.** Turn-back service just outside of the congested district could be greatly increased during rush-hours on a number of lines.

Third: **Trailers.** The use of trailers (preferably of the Peter Witt type) should give a large measure of relief thru increased carrying capacity.

These suggested aids, or any others of a reasonable nature for increasing capacity, should be given full consideration.

Thru routing and re-routing, turn-back service and trailers have already been ordered by the State Utilities Commission, as well as the necessary track changes and procuring of new equipment (see page 299-301, vol. 2 Opinions and Orders 1915). The commission also ordered traffic checks to be made by the companies for the commission's information. The orders have not been complied with, but instead the jurisdiction of the commission has been attacked in the courts by the companies. Why should the council not give in substance the same orders as the commission and leave the companies no escape from responsibility?

The above suggestions are offered with the belief that they are in general practical, and may offer a very large measure of relief. There are probably still other expedients that can be employed to advantage. If we are correctly informed, the companies have not bought any new cars since 1914, while traffic is constantly increasing.

If bad service were confined to the downtown section alone, there would be more justification for the "bad service excuse" of

"insufficient track capacity." Halsted and Western are two of the worst overcrowded lines. Would anyone claim that the track capacity is used up on these lines?

Only about 25% of the surface line traffic goes down town, for which the lack of track capacity any claim can be made. As above indicated, the down town track capacity is apparently not used to the best advantage.

THE ELEVATED LINES

The New York Subway was expected originally to carry only from four to five hundred thousand passengers a day. The operating facilities have been increased and improved so that on the same tracks over a million passengers a day are now carried.

The following suggestions are offered for bettering the service in Chicago:

First: The standard rush hour service is on the basis of five cars per train with an occasional six car train on the South Side and Northwestern. There is no apparent reason why six, seven, or more cars per train should not be run, with the corresponding increase in carrying capacity of about 20% to 40% or more—depending on the number of added cars. (Ten-car trains are run in the New York Subway).

Second: With the least possible delay, a cross-town line should be built in the vicinity of Ashland Avenue to connect the Englewood and the Stock Yards branches to the Douglas Park branch; utilize the present tracks from about 21st Street to Milwaukee Avenue and about Paulina Street; also build new tracks from there to connect with the Ravenswood branch at about Ravenswood and Roscoe Streets. This line should not only intercept a large amount of east bound transfer travel that now has to go down town to the congested district to get thru, but should encourage a large amount of the traffic originating east of this line, to travel west to make its transfer, instead of going east. The cost of this improvement should not exceed $8,000,000 for the best type of structure including right-of-way. This line was one of the recommendations made by the Traction and Subway Commission, but part of it was to be left to the 2nd three-year period for construction.

Third: Operate the west side lines with "U" branch thru service to and from the "loop," rather than all of these trains looping around, as at present. Trains to come in from Garfield and Douglas and go out Humbolt and Logan branches, and vise versa.

Fourth: An improved service innovation might be introduced in the operation of four and six-car trains in which no more trainmen would be needed than in the operation of three and five-car trains respectively. To illustrate: a two-car train is loaded and unloaded at one end of each car, with one attendant. If a four-car train is considered as made up of two two-car trains, with the doors at the center of the train closed and no gateman there, then you have two guards attending to four cars. Each car is loaded and unloaded from one end only—the same as for a two-car train. In the same way a six-car train would be handled by three guards. (The idea is not to maintain the same old standard of crowding and reduce the number of men, but to increase the number of cars and reduce the standard of crowding and still use no more men than with a less number of cars.)

Under normal traffic conditions, and with any degree of crowding of cars that should be tolerated, this plan should give satisfactory results, and possibly in some cases cut down operating expenses. It is at least suggested for consideration and trial.

Fifth: Other improvements should be made as most needed and in the City's interest. The City should not embark on a reckless program of subway building at any time.

ARE INCREASED FARES JUSTIFIED?

During the last year, almost without exception, thruout the country, the traction interests have sought to have fares raised, whether there has been real justification for it or not. Chicago has not escaped attention on this score.

First: *The Elevated Lines.*

While these have been allowed to charge 6 cents, and their case is now closed, outside of litigation, it is considered as a war emergency measure and subject to revision later as specifically stated by the Public Utilities Commission. The value of the property used for rate making purposes should be given attention by the proper authorities, if the 5-cent fare contract with the City is to be disregarded.

Second: *The Surface Lines.*

These have entered a petition to the State Utilities Commission asking an increase of fares to 7 cents based on the wage increases allowed by the War Labor Board.

Before the Surface Lines are allowed any increase in fares charged, the following facts should receive attention for adjustment:

(a) It is estimated that the companies are now receiving 5% returns on more than $53,000,000 of over capitalization. The annual returns on this amount to about $2,650,000, a sum to which they are not honestly entitled.

(b) There has been between four and five million dollars of net receipts each year divided between the City and the Companies on the basis of 55% and 45% respectively.

Before any increase in fares can be made in equity or fairness, there is an annual profit margin of about $7,000,000 that can be absorbed. This margin is made up of returns on the excess capital account and net profits above noted.

While the companies go to the State Utilities Commission to secure the right to charge higher fares, an order from the Commission to better the service is only responded to by noncompliance and litigation.

THE FUTURE DEMANDS PUBLIC OWNERSHIP

While the Traction and Subway Commission Report of 1916 recommendations in reference to construction, has some features that should be carried out, it has others, the wisdom of which may be seriously questioned when viewed in the broader aspects for the City's future.

Let us not make mistakes by closing our eyes to facts that are obvious and a matter of experience in other cities. It has been well said that one of the greatest factors or needs in solving the transportation problem of modern cities is to *reduce the demands for transportation.*

This feature is well illustrated by the example of the change in business location of Sears, Roebuck & Co. About 14 years ago their place of business was located at Fulton and Desplaines Sts. From there they moved to about Kedzie and Fillmore Sts. Fifteen to eighteen thousand people are in their employ and conditions are such that all these can, if they choose, live within walking distance of their work. Those that do use transportation will use it in the light direction, or for a short ride outside of the congested district. They simply should have no transportation problem.

Another notable case almost identically the same, is that of the Western Electric Co., employing from 20,000 to 25,000 people.

There are unquestionably many other concerns still in the congested district that could profitably do as the two above mentioned firms have done, to their own profit as well as to help in the solution of one of the most difficult and vexatious problems of transportation.

Let us not deceive ourselves with the notion that added transportation facilities alone will permanently relieve congestion in any district when the very conditions which have produced the over-

congestion are allowed to go on and increase unrestricted or unregulated. The sidewalk congestion in some parts of the business district is already excessive; and is bound to get worse with the addition of more skyscrapers which more transportation facilities will only invite. Did the New York Subway relieve congestion? It is now itself the most indecently overcrowded transportation facility in the world.

Our transportation development must not be a series of spasms of "Three-Year Periods of Immediate Rehabilitation," and "Construction Periods," which may be accompanied with exploitation and jobbing that have so frequently gone on under private ownership.

We must recognize that furnishing transportation is a public function and that it is also a part of City Planning and Development, which are also public functions.

Recognizing these facts, why should a great community like the City of Chicago dilly dally with mere temporary expedients under private ownership?

The question will never be settled until it is settled right. Private ownership of transportation has given us endless vexation and trouble and will continue to do so in the future. The only way to do a thing is *to do it. DO IT NOW.* Public Ownership of the Transportation not in fifty years, or in twenty years, or ten or five years, but *NOW*—Just as soon as we can do it.

Prepared by the Committee on Constructive Public Ownership Program.

Henry M. Ashton, Chairman.
Margaret A. Haley,
Stanley Kandul,
John C. Kennedy,
Grace F. Peter,
Otto M. Schultz,
Carl D. Thompson,
Edward M. Winston.

As before stated, the people have repeatedly voted for municipal ownership. The program is in the hands of the public officials. Will they act? It is up to the people to see that they do.

CHICAGO MUNICIPAL OWNERSHIP LEAGUE.

Wiley W. Mills, President.
Carl D. Thompson, Secretary.

MUNICIPAL RAILWAYS

San Francisco's Municipal Railways

The municipal street railways of San Francisco are proving a great success in every way.

A comparative financial statement has been recently issued by the City of San Francisco, giving in clear statistical form the revenues, expenditures, and profits of its Municipal Railway System for the six years that it has been in operation, from 1912 to 1918. This report shows true, net profits for each year as follows:

Dec. 28, 1912 to Dec. 31, 1913	$ 85,345.80
Dec. 31, 1913 to June 30, 1914	105,911.48
June 30, 1914 to June 30, 1915	288,157.43
June 30, 1915 to June 30, 1916	250,663.86
June 30, 1916 to June 30, 1917	31,084.27
June 30, 1917 to June 30, 1918	326,306.46
Total to June 30, 1918	$1,027,469.30

And besides being a very gratifying financial success these municipal lines have given the very best of service, paid the highest wages and maintained the best of labor conditions. There have been no strikes or labor troubles, and what is most significant of all, **no increase in fares.**

If San Francisco can make a success of municipal ownership of its railways — why not Chicago?

Seattle Takes Over Entire Street Car System

At 11 o'clock on March 31st of this year the city of Seattle, Washington, formally took over its entire street car system including about 200 miles of lines and equipment. This action was the result of a long and carefully considered plan on the part of the municipality together with some practical experience with municipal ownership of a small part of the city's system.

Thus Seattle comes to the front with one of the largest publicly owned street car systems on the continent — another evidence that the people of the American cities are coming to the conclusion that public ownership is the only solution of their transportation problems.

MSH 21792

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